South Africa Economic Outlook

Lockdown scenarios and the impact on growth

10 June 2021

About this document

This document reports on PwC South Africa's economic forecasts for the country as of 10 June 2021, based in different forward-looking scenarios. The report and associated projections are updated on a monthly basis thought revisions could occur more frequently based on major economic data releases or key influential events. The content reflects publicly on some of our key forecasts while other data is reserved for internal purposes and client services.

In this edition, we update out scenarios for what COVID-19 lockdown restrictions – a key component in our economic modelling - could look like in the near term. With expectations of even stricter lockdown regulations from July to combat the third wave of the pandemic, our economic scenarios still provide for a wide range of possible economic growth rates in 2021 and 2022. We also highlight how this economic recovery will translate into job creation, and warn that under our baseline scenario, the unemployment rate will be stuck around the 32% level over the long term. On a positive note, current inflation dynamics should allow the central bank to keep lending rates on hold for the remainder of 2021.

This document is produced by the PwC South Africa Strategy& Economics team. For more information on the team, its services and publications, see the last page of this document.

Economic forecasts for 2021 are strongly influenced by different lockdown scenarios.

South Africa Economic Outlook June 2021

Exports and mineral sales rise y-o-y in 2020Q1 while hospitality revenues are still significantly lower.

Following the 2020 recession, the South African economy is projected to grow in 2021. Admittedly, some of this year's real economic growth – in particular from April onwards – will be due to the base effects arising from the large contraction in economic activity last year during the second quarter.

Nonetheless, there are growing green shoots in the economy that are not linked to base effects. The South African Revenue Service (SARS) measured a 25.1% y-o-y increase in exports during 2021Q1. This was supported by a significant rise in mineral sales – Statistics South Africa (Stats SA) measured a 32.4% y-o-y increase in the value of sales. This, in turn, was driven by a recovery in global mineral demand and rising international commodity prices.

In contrast, Stats SA noted that revenues at restaurants, coffee shops and catering establishments were still down 20.0% y-o-y in the first quarter, while income from tourist accommodation dropped 63.6% y-o-y in the near absence of international visitors.

1.3%

At the time of writing, about 1.3% of the adult population had been fully vaccinated. This will do little to effectively curb the third wave of infections which has already arrived.

2021 lockdown level assumptions

	Upside	Baseline	Downside
January	3	3	3
February	3 lite	3 lite	3 lite
March	1	1	1
April	1	1	1
May	1	1	1
June	2	2	3 lite
July	2 lite	3 lite	3 strict
August	1	2	3 lite
September	none	1	2
October	none	1	2
November	none	1	1
December	none	1	1

Source: PwC

Our economic model considers the varying impacts of lockdown restrictions on different segments of the economy.

By the first week of June, South Africa had administered over 1.3 million single COVID-19 vaccine doses. This includes around 480,000 of the one-shot Johnson & Johnson vaccine provided to medical personnel as part of the Sisonke trial, and the first round of the two-shot Pfizer vaccine made available to the elderly (over the age of 60). An additional amount of approximately 800,000 doses were in-country and awaiting administration.

At the time of writing, about 1.3% of the adult population – mostly medical staff – had been fully vaccinated. However, despite the accelerated vaccine roll-out over the past month, including the opening of some privately-operated vaccine facilities, the threat of the third wave is still imminent - specifically in Gauteng.

By June 6, South Africa had nearly 62,000 active COVID-19 cases – up from 20,000 in late-April. The seven-day new infection rate also climbed to its highest level in four months. With rising new infections, South Africa moved from Level 1 lockdown in March, April and May to an adjusted Level 2 lockdown from June 1.

PwC's economic scenarios for 2021 are strongly influenced by different perspectives about the severity of a third wave of COVID-19 infections. The severity of the mid-year wave, and the accompanying strictness of associated lockdowns, will primarily determine the nature of the economic recovery. Additionally, we consider the adverse effect of loadshedding and the positive impacts of fiscal and monetary stimulus on the economy.

To estimate the economic impact of lockdown levels, an Economic Impact Assessment (EIA) scenario tool was development. PwC used a Social Accounting Matrix (SAM) methodology to estimate how lockdown restrictions affect various sectors of the economy. This scenario tool helps us understand the direct, indirect and induced impacts of the specific shock on the local economy.

Our baseline scenario is for economic growth of 3.7% in 2021 - though the range of scenarios is still wide.

South Africa Economic Outlook June 2021

Real GDP was down 3.2% y-o-y in 2021Q1 despite activity in some industries returning to pre-recession levels

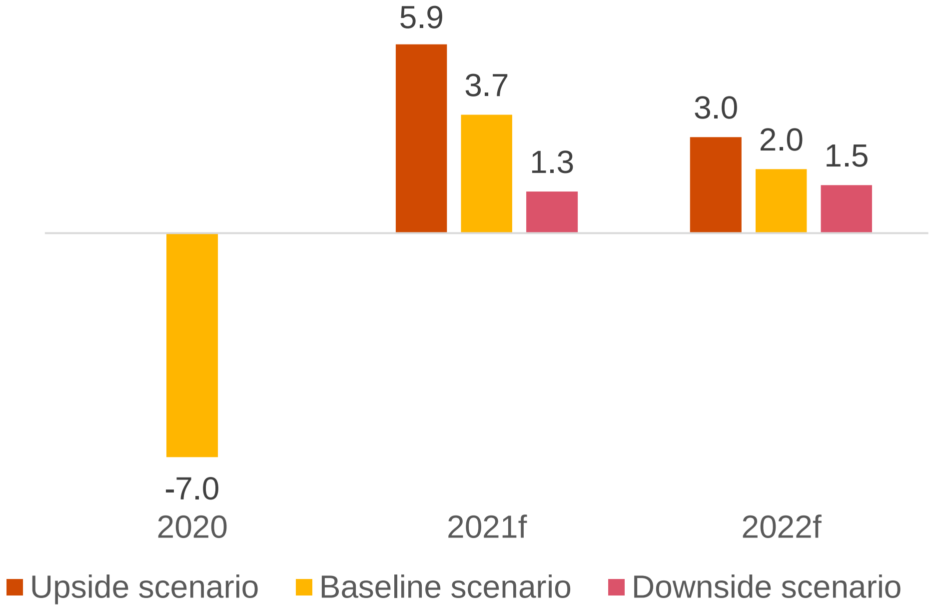
The South African economy expanded by 4.6% quarter-on-quarter (q-o-q) at a seasonally adjusted and annualised rate (saar) in 2021Q1 and 1.1% q-o-q at a non-annualised rate, but was still 3.2% year-on-year (y-o-y) smaller during the period.

The 3.2% y-o-y decline in real GDP reflects an economy that is overall still smaller than it was in the pre-pandemic period. On a positive note, three out of ten industries tracked by Stats SA recorded y-o-y growth in the first quarter: agriculture, government services and mining. This means that these sectors are now larger than during the pre-pandemic (2020Q1) period.

The second quarter has seen some positive economic trends. The IHS Markit South Africa Purchasing Managers' Index (PMI) recorded positive private sector growth in both April and May, including an increase in new orders. Survey panellists reported a solid increase in output during May on the back of new business inflows. New orders from international clients increased more moderately, with demand improvements largely based on better domestic sales.

5.9% In our upside scenario, less strict lockdown rules and a slowdown in electricity loadshedding in the remainder of the year could boost real GDP growth to more than 5.9% during 2021.

Figure 1: Change in real GDP (%)



Source: PwC

Our baseline GDP scenario for this year is based on expectations of an adjusted Level 3 lockdown (3 lite on the previous page) in July to help combat the rising third wave of COVID-19 infections. While a subsequent easing in restrictions is expected as the winter thaws in August and September, South Africa is anticipated to remain in Level 1 lockdown from September towards year end. This scenario sees the South African economy grow by 3.7% in 2021. The forecast also includes an assumption of continued electricity loadshedding akin to the regularity experienced in 2020.

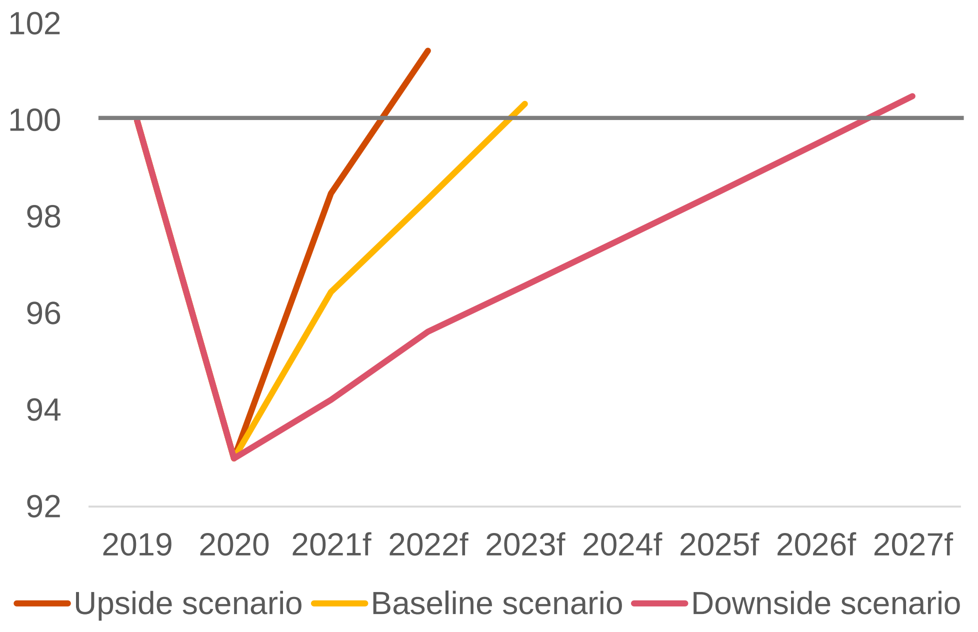
The upside scenario sees fewer days of loadshedding in the remainder of the year, a less strict lockdown during winter due to vaccination successes, and a complete lockdown exit from September. This would see the economy grow by 5.9% this year. In turn, our downside scenario assumes a more severe infection level during the third wave and no exit from the lockdown until 2022. An economic growth rate of only 1.3% is linked to this scenario.

The South African economy will only return to its pre-pandemic size by 2023 – or even later.

Based on our forecasts, we expect GDP to return to the pre-pandemic level (i.e. 2019, identified by an index level of 100 in the below graph) by 2023. It could happen sooner under the upside scenario, though at the same time a sluggish recovery under the downside scenario could see the timeline extended to 2027. Amongst the alternative alternatives, we currently see the downside scenario as slightly more likely than the upside narrative.

It is important to keep in mind that South Africa's real GDP per capita was in decline before COVID-19, and dropped by 8.3% last year. Based on our GDP and population growth expectations, real GDP per capita will only return to 2019 levels by 2028.

Figure 2: Return to pre-COVID-19 real GDP levels



Source: PwC

Despite a small decline in 2021Q1, employment is expected to increase by more than 444,000 this year.

South Africa Economic Outlook June 2021

Unemployment rate climbs to record high (and the 2nd-highest globally) in 2021Q1, while 200,000 jobseekers give up hope.

South Africa lost 2.2 million jobs in 2020Q2 and regained 876,000 of these during the second half of the year. Stats SA recorded a 28,000 decline in jobs during 2021Q1 as the recovery (temporarily) stalled. There were some seasonal factors involved, with the first quarter usually seeing the end of temporary holiday jobs in e.g. retail. Nonetheless, the official (narrowly defined) unemployment climbed from 32.5% in 2020Q4 to a new record high of 32.6% in 2021Q1. The latest reading is the second-highest up-to-date unemployment reading in the world after Bosnia & Herzegovina (33.4% in 2021Q1).

The increase in the unemployment rate was less than economists expected. This is attributed to some 200,000 people who were looking for work in 2020Q4 shifting to the discouraged workers category – i.e. they have given up on finding a job – by 2021Q1. These people likely lost their jobs during the strictest levels of lockdown last year and were searching for a new job during the second half of 2020. In the absence of success, they have given up on again finding employment – and giving up means you are not included in the unemployment rate calculations.

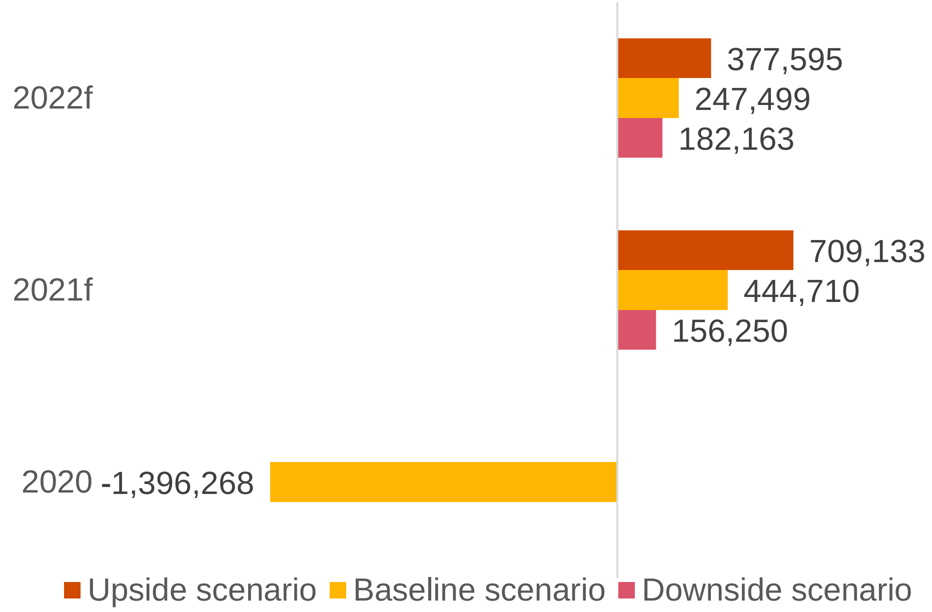
As a result, the expanded unemployment rate - which includes discouraged workers – increased from 42.6% in 2020Q4 to 43.2% in 2020Q1. total employment was 8.5% y-o-y lower in 2021Q1 – in other words, one in twelve jobs were lost compared to a year earlier. This will compound the existing challenges seen prior to the pandemic in creating enough value-adding jobs in South Africa. PwC commented last year that the country's key challenges (poverty, unemployment and inequality) have now become more severe through the pandemic and to address them will require government to take an entirely new approach.

Back to the future: by end-2021, total employment should be at a similar level to that seen in 2015.

Total employment fell to 2011 levels during the depths of the 2020Q2 lockdown and 'recovered' to 2014 levels by 2021Q1. However, the number of jobs in the country by March 2021 was only 91% of the end-2019 level. Local business leaders are extremely concerned about the impact of unemployment on their businesses. PwC's 24th Annual Global CEO Survey (2021) found that 95% of South African CEOs are somewhat or extremely concerned about unemployment versus 61% globally

We estimate that, by the end of this year, total employment should be at a similar level to that seen in 2015. Our economic forecasts suggest South Africa will recover 444,710 jobs in 2021. By our estimates, this number could have been closer to 650,000 were it not for the adverse impact of electricity loadshedding.

Figure 3: Change in employment (no. of jobs)



Source: PwC

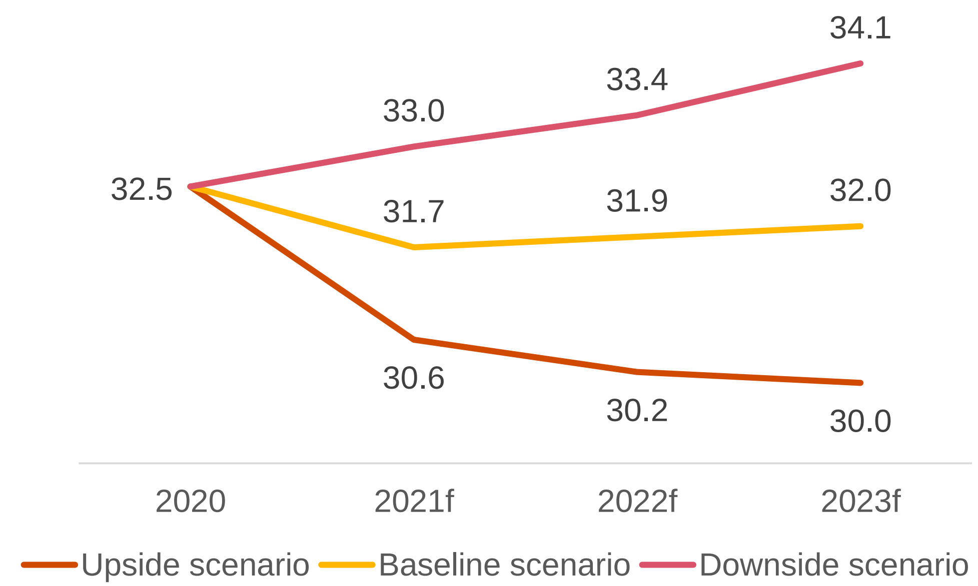
Unless SA achieves the upside scenario GDP growth, the unemployment rate will oscillate around 32% over the long term.

We now expect total employment to return to 2019 levels (i.e. pre-pandemic) by 2025. However, by then, a large number of new aspiring workers will have been added to the labour force. As such, PwC expects the narrowly defined unemployment rate to oscillate around the 32% level over the long term. This should not be accepted as normal or acceptable.

Our upside scenario suggests that it is possible for the unemployment rate to return to pre-pandemic levels below 30% by 2024. However, this requires a higher average economic growth rate of 3.5% per annum over the 2021-2024 period compared to a baseline forecast mean of 2.4% per annum.

To achieve this, South Africa needs to implement a raft of structural changes that will boost economic growth and job creation.

Figure 4: Unemployment rate (%)



Source: PwC.

Increased consumer expenditure on durable goods as South Africans spend more time at home.

> South Africans spent 13.4% more time at home in January-May 2021 compared to the pre-COVID-19 period. With greater need for domestic furnishings and entertainment, real sales of household furniture, appliances and equipment increased by 18.3% y-o-y in 2020Q1

Increased disposable income as employment recovers and cost-of-living adjustments return.

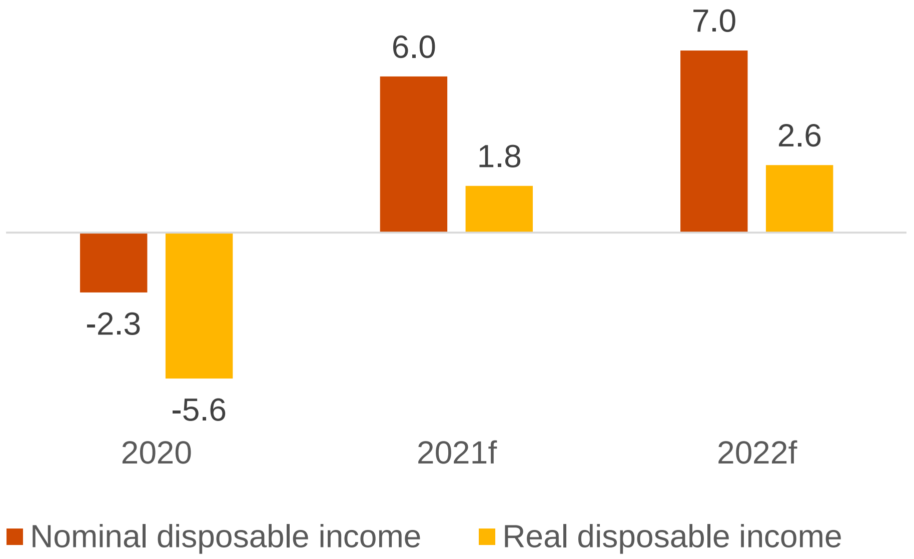
South Africa had 7.6 million taxpayers in 2019. After the negative impact of COVID-19 lockdowns on jobs in 2020, the South African Revenue Service (SARS) expects to have only 6.9 million taxpayers in 2021. Hundreds of thousands of low-skilled workers lost their jobs in 2020, with little to no income at present placing them below the personal income tax threshold. In turn, the number of high-income workers have remained relatively stable between 2019 and 2021 because higher-skilled workers were less likely to lose their jobs in 2020.

Consumer confidence declined into negative territory in 2019Q3 and has, not surpassingly given employment losses, remained pessimistic heading into 2021. The FNB/BER Consumer Confidence Index (CCI) 2021Q1 indicated that South Africans were pessimistic during 2021Q1 about the economic outlook for the year ahead. This was evident in lacklustre overall retail sales: Stats SA measured a 1.3% y-o-y decline in real (i.e. inflation adjusted) retail sales during the first quarter. The unadjusted number was +1.0%.

However, South African consumers are spending more time at home than before and are adjusting their retail expenditure accordingly. Data from Google indicates that South Africans spent 13.4% more time at home in January-May 2021 compared to the pre-COVID-19 period (based on a benchmark period of 3 January – 6 February 2020).

With greater need for domestic furnishings and entertainment, real sales of household furniture, appliances and equipment increased by 18.3% y-o-y in 2020Q1 – and there were only limited base effects involved in this number. Recent corporate results from non-food retailers also reflect an improvement in durable goods spending.

Figure 5: Change in disposable income (%)



Source: PwC

Under our baseline scenario, we expect nominal disposable income to grow by 6.0% this year following the 2.3% decline in 2020. A combination of factors underpin this outlook, including a continued recovery in employment and some relief in effective personal income tax payments announced in Budget Speech 2021.

Furthermore, many companies that were able to defer living cost adjustments in 2020 will not be able to do so again. As such, we expect real disposable income to increase by 1.8% in 2021.

Nonetheless, the adverse impact of COVID-19 on household finances will not dissipate anytime soon. In response, there has been increased speculation about the introduction of a basic income grant (BIG) sooner rather than later. The government's Department of Social Development noted in May that it has developed a BIG discussion document and has started consultations.

Moderate consumer price inflation will keep interest rates at record lows for the remainder of 2021.

South Africa Economic Outlook June 2021

Strong rand is keeping import costs low – but supply chain challenges could unwind this situation in coming months.

The rand closed May below the R14/$ mark and breached R13.50/$ in the first week of June - trading at its strongest level against the greenback since the start of 2019. The current global climate – rising commodity prices, recovering industrial activity, and growth in major economies – has benefitted the local currency in recent months. This resulted in continued deflation in imports: Stats SA reported that the import basket cost 7.8% y-o-y less in March.

At the same time, global supply chains are stretched as manufacturers buy raw material inputs to keep up with the strong recovery in demand. The latest IHS Markit South Africa PMI noted that private sector companies reported a lengthening of suppliers' delivery times during April and May.

Unsurprisingly, IHS Markit found that supply-side problems resulted in a notable rise in in purchasing costs – suggesting that the favourable import deflation situation could unwind in coming months. This, in turn, could see a further rise in producer price inflation, which climbed from 3.5% y-o-y in January to 6.7% y-o-y in April.

4.2%

We expect inflation to average 4.2% in 2021 and 4.4% in 2021 – very close to the mid-point of the 3%-6% target range that the SARB is currently favouring.

Inflation is again near the middle of the SARB target range – which is good news for the interest rate outlook.

Headline inflation has increased in recent months, rising from 2.9% y-o-y in February to 4.4% y-o-y in April. The April reading carried some notable base effects: with inflation dropping in the April 2020 to a 15-year low, this y-o-y calculation for April 2021 is artificially higher.

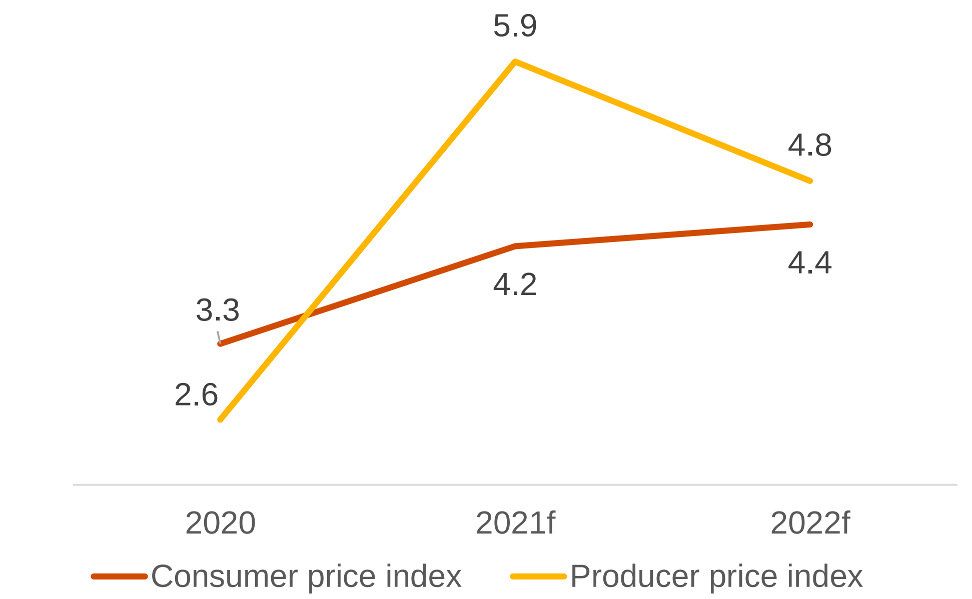
Nonetheless, a big driver of higher y-o-y inflation in April - the increased cost of transportation – is due to an actual upward adjustment in fuel prices. Petrol cost R1.00/litre more from April 7 while diesel was R0.65/litre more expensive. This was associated with higher international product prices and, to a lesser extent, a weaker exchange rate.

There is also currently upwards pressure on motor vehicle prices due to a combination of factors, including higher global prices on key inputs (metals and plastics in particular), slower production due to the worldwide semiconductor shortage, and a global tightening of supply chain dynamics.

We expect inflation to average a moderate 4.2% in 2021, and a slightly higher 4.4% in 2021 – both very close to the mid-point of the 3%-6% target range that the SARB is currently favouring.

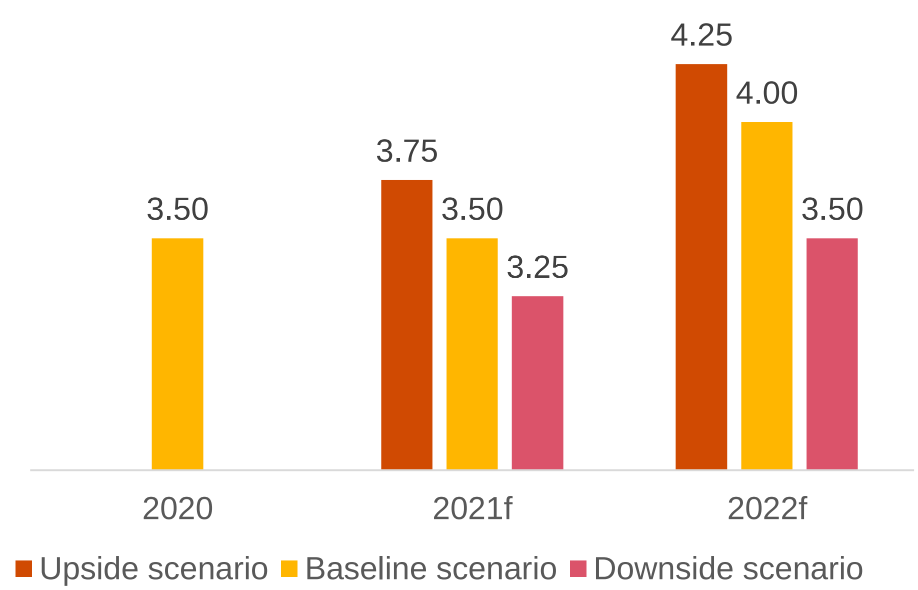
The current inflation environment will enable the SARB to keep interest rates at a record-low for now. However, it cannot indefinitely delay the start to monetary policy normalisation – the central bank has already signalled that that next rate adjustment will be upwards. We believe the central bank will wait until early in 2022 to start lifting lending rates, and to raise the repo rate by a cumulative 0.5 percentage points.

Figure 6: Price inflation (% change)



Source: PwC

Figure 7: Repo rate (%)



Source: PwC

Data table, recent publications, and contacts

South Africa Economic Outlook June 2021

Baseline forecasts

	2019	2020	2021f	2022f
Consumer price inflation (%)	4.1	3.3	4.2	4.4
Repo rate (end-of-period)	6.50	3.50	3.50	4.00
Real GDP (%)	0.2	-7.0	3.7	2.0
Unemployment rate (%)	28.1	32.5	31.7	31.9
ZAR/USD	14.50	16.46	15.00	15.50

Source: PwC

Recent publications

What a 'just transition' means for jobs in South Africa: Considering employment in a lower-carbon economy

https://www.pwc.co.za/en/publications/just-transition.html

To meet its climate commitments as well as changing demand among its trading partners, South Africa is transitioning away from some of its high green-house gas (GHG)-emitting industries. Yet these industries have also been the basis of its economy over the last decades, with many communities reliant on the jobs they sustain. In this article, we discuss what is required to ensure a transition to a lower carbon economy is 'just' in the South African context and creates sufficient jobs for the future.

The report concludes with the opinion that the more swiftly we move from dying industries and establishing South Africa among the frontrunners in growing industries, the better the chances of maintaining and creating sustainable jobs in the future. This, however, needs to be accompanied by training and reskilling programmes as well as a major increase in domestic and international investment in climate action, both by the public and private sector

About the Economics team

The PwC South Africa Strategy& Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

1. Measure your impact on the economy
   - Economic Impact Assessment (EIA) / Socio-Economic Impact Assessment (SEIA)
   - Regulatory Impact Analysis (RIA)
   - Total tax contribution
   - Localisation calculations

2. Make decisions about risk and investment
   - Macroeconomic research
   - Market entry analysis
   - Country and industry risk assessments
   - Commercial due diligence assistance

3. Plan for future economic scenarios
   - Economic and political scenario planning
   - Industry and macroeconomic modelling
   - IFRS 9 audit assist

Please visit our website to learn more:
https://www.pwc.co.za/en/issues/economy.html

For more information please contact:

Lullu Krugel
Partner and Chief Economist
lullu.krugel@pwc.com
+27 82 708 2330

Jeaunes Viljoen
Senior Manager
jeaunes.viljoen@pwc.com
+27 82 634 2036

Dirk Mostert
Senior Manager
dirk.mostert@pwc.com
+27 82 800 9326

Christie Viljoen
Manager
christie.viljoen@pwc.com
+27 82 472 8621

Salome Ntsibande
Manager
salome.ntsibande@pwc.com
+27 72 210 1013